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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

MONEY AND REAL ESTATE

SINCE January of 1960 the rate of real estate activity has been declining. As yet real estate activity has not fallen to the lows of 1958, but it certainly is heading in that direction. If we really knew why this recession in both business and real estate came about, perhaps we could see how soon an upturn could be expected.

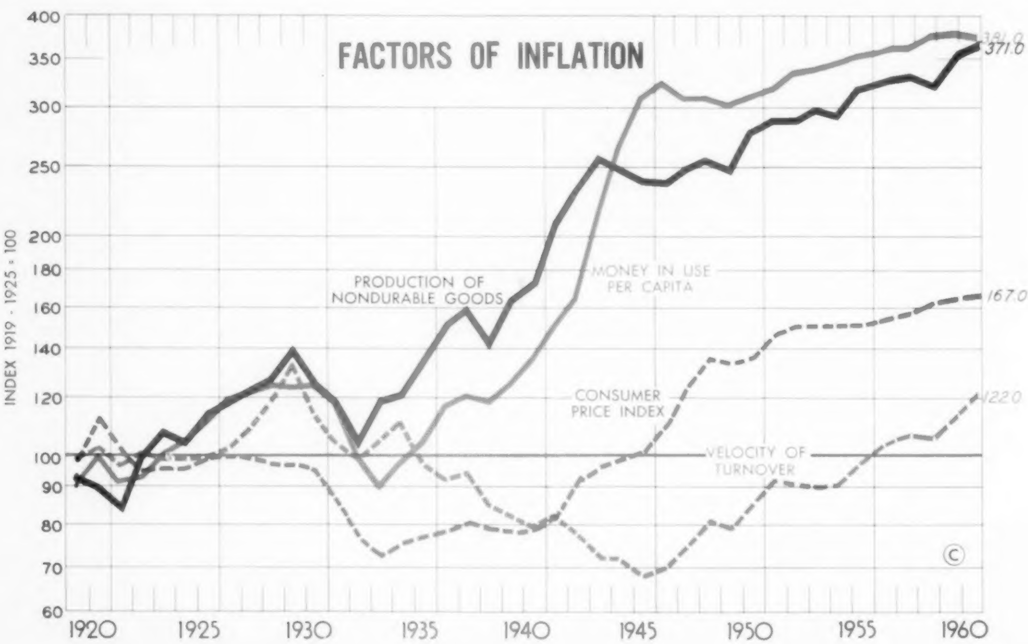
Many reasons have been advanced. Some claim it is an inventory recession. These people say that for some reason businesses thought that their inventories were too high and that they cut their spending. This spurred the recession. Inventories were too large with respect to sales because businessmen had overestimated sales growth, or because consumers began spending less. Consumer spending, however, continued upward into the middle of last year. Therefore, business expectations must have had much to do with the recession. One of the first signs of the recession, however, was the decline in

housing starts. What would simultaneously discourage the growth of spending that business had anticipated and send the housing market into a tailspin? Maybe the answer is in money.

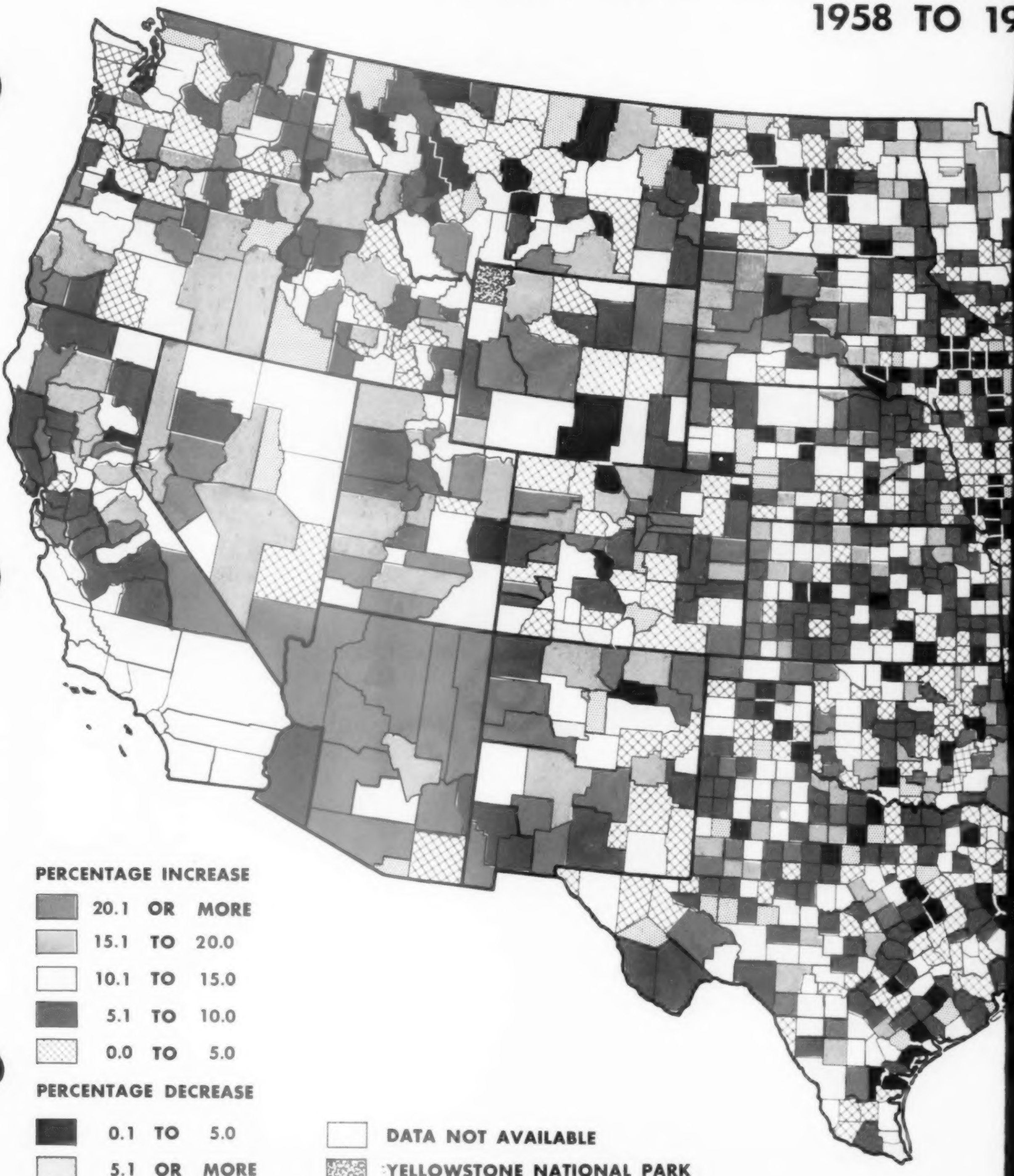
The chart below shows that the amount of money in use per capita in the United States fell slightly from 1959 to 1960. This contraction in the money supply made scarce the amount of funds available to be lent. For this reason interest rates on all kinds of investments, including housing, were pushed up. Thus we had the exceedingly tight money situation of January 1960. Since it was less profitable to hold bank deposits and other money idle, some persons bought Treasury bills with their "idle" money and thus speeded up the rate of flow of money. This is shown by the index of the velocity of turnover in the chart below. The velocity of turnover is the number of times people spend the average value of their checking accounts in the course of a year. Between 1959 and 1960 turnover increased rapidly to compensate for the contracted money supply.

In the chart below we show money in use per capita to be the same level in 1960 as it was in 1958. In the map on pages 103 and 104, however, the average increase in deposits between June 23, 1958, and June 15, 1960, was 5 percent. Part of the difference is due to the fact that bank deposits are only part of the money supply. The main reason for the difference, however, is that the

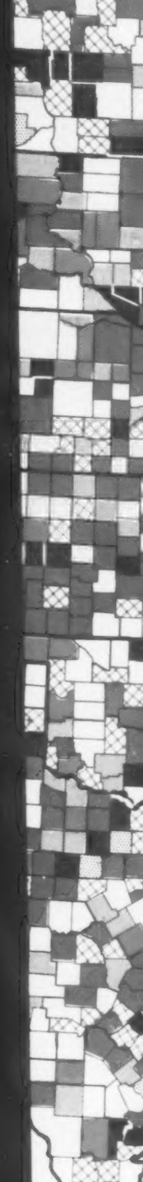
(cont. on page 106)



PERCENTAGE CHANGE IN BANK
1958 TO 19



IGE IN
1958



IGE IN BANK DEPOSITS BY COUNTIES
1958 TO 1960

ROY WENZLICK INDICATORS OF THE REAL ESTATE MARKET

	REAL ESTATE ACTIVITY: Number of Voluntary Real Estate Transfers per 10,000 Families	% Above or Below Normal	REAL ESTATE SELLING PRICE 1947-49 = 100	CONSTRUCTION ACTIVITY: New Family Accommodations per 10,000 Families by City Size (in thousands): 1,000+	500-1,000	250-500	50-250
Ja 1960	78.2	-5.8	130.2	15.4	22.3	16.6	15.2
F 1960	77.6	-6.5	130.8	16.4	18.9	20.1	15.6
Mr 1960	73.9	-11.0	130.6	12.6	20.0	18.7	13.9
Ap 1960	72.9	-12.2	130.1	15.5	21.2	19.0	15.7
My 1960	72.9	-12.2	129.4	15.6	23.9	17.7	15.8
Jn 1960	73.8	-11.1	129.6	15.0	19.9	20.4	16.7
Jl 1960	75.4	-9.2	130.6	15.0	16.3	17.8	15.7
Ag 1960	76.6	-7.7	130.4	16.0	21.2	20.8	16.0
S 1960	78.3	-5.7	130.0	14.5	18.9	19.2	15.5
O 1960	77.3	-6.7	129.0				
N 1960	75.4	-9.2	128.8				
D 1960	74.3	-10.5	128.8				
Ja 1961	74.7	-10.0					

	MORTGAGE ACTIVITY: Number of Mortgages Recorded per 10,000 Families	AVERAGE INTEREST RATE RECORDED MORTGAGES IN 11 MAJOR CITIES OF THE UNITED STATES	RENTS 1921-38 = 100	COST -- TWO-STORY SIX-ROOM FRAME HOUSE (St. Louis)
Ja 1960	63.0	6.099%	127.3	19,607
F 1960	64.0	6.156	127.4	19,609
Mr 1960	63.5	6.154	127.5	19,595
Ap 1960	63.9	6.170	127.7	19,443
My 1960	62.5	6.189	127.9	19,244
Jn 1960	63.0	6.209	128.1	19,243
Jl 1960	63.8	6.124	128.3	19,240
Ag 1960	65.3	6.129	128.5	19,209
S 1960	65.6	6.141	128.6	19,152
O 1960	63.1	6.148	128.8	19,514
N 1960	63.6	6.143	129.2	19,514
D 1960	62.9	6.191	129.3	19,465
Ja 1961	63.4	6.139	129.5	19,455
F 1961				19,429

(cont. from page 102)
population of the United States increased by 4 percent in this two-year period so that more money was needed to maintain the same amount per capita.

Although the United States is in a recession, some areas may be doing better than the average and some worse. Those counties showing an increase in deposits greater than 5 percent in the map on pages 103 and 104 may be doing better than the rest of the nation. On this map we have shown the percentage change in total time and demand deposits for each county in the United States for which information is available. We have lumped all the counties in one metropolitan statistical area together in order to show the percent change in deposits in the total metropolitan area rather than for the separate counties. The decreases in bank deposits seem to have been concentrated in the central farm States with Texas and Florida having a share, too.

The slight strength of demand for housing has been demonstrated by the powerful influence interest costs had on the market. We have been continually pointing out that the increasing vacancy rate has indicated the weakness in this market. Another indication is the falling building cost of our six-room frame house.

Since June the decline in building has made more money available for mortgage loans and has brought about a small decline in the mortgage interest rates. The recent action by the Federal Housing Administration to lower the interest rate limit on FHA-insured mortgages from 5-3/4 percent to 5-1/2 percent may influence the market rate to be lowered further. The action by the Federal Home Loan Bank Board to ease terms on loans for houses in the $20,000 to $25,000 bracket and to ease credit from the Home Loan Banks to savings and loan associations should assure a continued decrease in mortgage interest rates. Because the demand for housing is weak, we feel that this will increase demand for housing by less than such measures did during the decade of the 1950's. Thus, the revival of housing sales may be slow in coming - not before the middle of the year.

A problem that has not had to be faced until recently has been the international balance of payments. In the last month there has not been much talk about it. But if short-term interest rates are forced down along with the long-term rates, the gold problem will reassert itself. President Kennedy and the Federal Reserve are trying to avoid this by expanding the money supply and decreasing long-term interest rates only. We may well find that the Kennedy administration with its predilection for government supervision will eventually control mortgage interest rates at lower levels.